

UNITED STATES DISTRICT COURT  
WESTERN DISTRICT OF WASHINGTON  
AT TACOMA

ORGANIC ENERGY CONVERSION  
COMPANY, a Washington limited  
liability company,

Plaintiff,

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FLAMBEAU RIVER PAPERS, LLC, a Wisconsin limited liability company; FOUNTAINHEAD ENGINEERING, LTD., a Michigan limited liability company,

## Defendants.

CASE NO. C09-5008BHS

ORDER DENYING  
DEFENDANTS' MOTION TO  
DISMISS, OR IN THE  
ALTERNATIVE, TO STAY

This matter comes before the Court on Defendants' motion to dismiss, or in the alternative, to stay. Dkt. 6. The Court denies Defendants' motion for the reasons stated herein.

## I. BACKGROUND

Defendants request this Court to abstain from exercising jurisdiction over this case because Defendant Flambeau River Papers, LLC (“Flambeau”) first filed a state court action against Plaintiff in Wisconsin.

## A. The Wisconsin Action

On June 19, 2008, Flambeau, Johnson Timber Corporation and William Johnson (collectively “Wisconsin Plaintiffs”) filed a complaint against Organic Energy Conversion Company (“OECC”) in Price County Circuit Court in Wisconsin. Dkt. 6-2. Johnson Timber is a Wisconsin corporation, and Mr. Johnson is its principal shareholder and chief executive officer. Mr. Johnson, a resident of Wisconsin, is also the CEO of Flambeau, as well as the sole member of Summit Lake Management, LLC, which is the managing member of Flambeau.

According to the complaint, in February 2008, OECC and Flambeau entered into a non-binding memorandum of understanding (“MOU”), which called for Flambeau to make a payment of \$600,000 to OECC that was to be used exclusively by OECC for the development and construction of a specified product. Under the MOU, OECC and Flambeau were to successfully test the product no later than April 1, 2008, and the product was to be delivered to Flambeau’s Park Falls, Wisconsin facility no later than May 1, 2008. Flambeau maintains that it paid the initial \$600,000 to OECC for production and development of the product.

When it became apparent that OECC could not deliver the product as promised, Mr. Johnson met with individuals purporting to be authorized representatives of OECC in an attempt to find a business solution to the problem. Those discussions led to the signing of a term sheet, which expressed the parties' desire to explore a joint-venture type relationship relating to the product. Under the term sheet, all equipment and other items necessary for completion of the product would be delivered to the Park Falls facility, and OECC would dispatch an authorized representative to the facility to "ensure the successful manufacture and assembly" of the product. The Wisconsin Plaintiffs maintain that the term sheet is a non-binding document "merely setting forth the good-faith intentions of the parties for the structure of the joint-venture relationship. The term sheet explicitly calls for subsequent agreements to be reached and entered into between OECC

1 and one or more of the [Wisconsin] Plaintiffs, although it does not identify which specific  
2 parties are to be participants in the contemplated joint venture.” *Id.* at 7. The term sheet  
3 also calls for a subsequent operating agreement to be entered into as part of the joint  
4 venture relationship. The Wisconsin Plaintiffs maintain that the parties have not  
5 negotiated or entered into an operating agreement.

6 Additionally, the term sheet provided that once the operating agreement has been  
7 executed and the joint venture established, Mr. Johnson and/or one of the other Wisconsin  
8 Plaintiffs was to pay OECC \$1 million in ten equal installments. The Wisconsin Plaintiffs  
9 maintain that, although no joint venture had been established, Mr. Johnson, “as a gesture  
10 of good faith,” caused the first installment to be made to OECC on May 2, 2008.

11 On May 28, 2008, Mr. Johnson received information from Butch Sadikay, who  
12 identified himself as a 50% owner of OECC, “caution[ing] Mr. Johnson from continuing  
13 to do business with OECC without further discussion between them.” *Id.* at 8. Based on  
14 this information, as well as a subsequent phone conversation, the Wisconsin Plaintiffs  
15 believed that “it [did] not appear . . . that the individuals who signed the MOU and the  
16 term sheet were authorized to do so on behalf of [OECC].” *Id.*

17 Flambeau contends that it demanded an accounting of the \$600,000 because  
18 OECC never completed the product. Flambeau further maintains that OECC has  
19 requested an installment payment pursuant to the term sheet, and that OECC  
20 characterized the term sheet as a “binding contract.”

21 In the Wisconsin action, the plaintiffs seek a declaratory judgment that they owe  
22 no contractual obligations requiring payment to OECC. The Wisconsin Plaintiffs also  
23 seek an accounting for the \$600,000 Flambeau allegedly paid to OECC.

24 OECC asserted several affirmative defenses in its answer, including (1) lack of  
25 personal jurisdiction, (2) improper jurisdiction and venue because key discussions and  
26 agreements took place in Washington where key witnesses still reside, and (3) improper  
27 jurisdiction and venue because Flambeau signed a written agreement promising that

1 disputes arising out of the terms of the parties' relationship could only be commenced in  
2 Pierce County, Washington. *Id.*, 14-15.

3 **B. OECC's Washington Action**

4 On November 10, 2008, OECC filed a complaint against Flambeau and  
5 Fountainhead Engineering, Ltd. ("Fountainhead"), in Pierce County Superior Court in  
6 Washington. Dkt. 1, 9-13. On January 8, 2009, Defendants Flambeau and Fountainhead  
7 removed the Washington action to this Court. *Id.*, 1-5. OECC alleges two causes of  
8 action: (1) breach of contract based on Flambeau's and Fountainhead's alleged breach of  
9 a mutual non-disclosure agreement ("MNDAA"), and (2) conversion based on Flambeau's  
10 and Fountainhead's alleged conversion of OECC's intellectual or other property.

11 According to this complaint, OECC developed "valuable and confidential  
12 technology and process for non-thermal drying of biosolids and biomass." *Id.* at 10. This  
13 technology and process was the subject of a confidential patent application filed with the  
14 United States Patent and Trademark Office on December 12, 2007.

15 OECC agreed to give access to this patent application to Flambeau and  
16 Fountainhead for the purpose of furthering a possible business relationship between the  
17 parties to develop, manufacture and sell a non-thermal biomass dryer to the timber  
18 industry (referred to by the parties as the "Possible Transaction"). To that end, the parties  
19 entered into the MNDAA, which is dated December 11, 2007. The MNDAA provides in part:

20 Neither Party will use, or permit any of its Representatives to use, any of  
21 the other Party's Confidential Information for any purpose other than in  
22 connection with the evaluation of the Possible Transaction, and neither  
Party will make any such Confidential Information available to any Person  
for any other purpose whatsoever.

23 Dkt. 1 at 16.

24 The MNDAA also includes a provision that requires "any legal proceedings arising  
25 out of the terms of [the MNDAA] . . . be commenced in the courts located in Pierce County  
26 [Washington]." *Id.* at 21.

1       OECC alleges that Flambeau and Fountainhead “repudiated the existence of any  
2 business relationship with [OECC]” and claimed to have built their own non-thermal  
3 biomass dryer with the assistance of Mr. Johnson and Johnson Timber. OECC maintains  
4 that Defendants’ biomass dryer wrongfully uses OECC’s confidential information in  
5 violation of the MNDA.

6           **C. Defendants’ Motion**

7       On January 9, 2009, Defendants filed the instant motion. Dkt. 6. On January 29,  
8 2009, OECC filed a response. Dkt. 14. On February 4, 2009, Defendants filed a reply.  
9 Dkt. 17.

10           **II. ABSTENTION UNDER COLORADO RIVER**

11       In rare circumstances, a federal court may stay its proceedings in deference to  
12 pending state proceedings. *See Travelers Indemnity Co. v. Madonna*, 914 F.2d 1364, 1372  
13 (9th Cir. 1990). “Abstention from the exercise of federal jurisdiction is the exception, not  
14 the rule.” *Colorado River Water Conservation Dist. v. U.S.*, 424 U.S. 800, 813 (1976). If  
15 the parallel state-court action will be an adequate vehicle for the complete and prompt  
16 resolution of the issues before the parties, abstention may be appropriate. *Smith v. Central*  
17 *Ariz. Water Conservation Dist.*, 418 F.3d 1028, 1033 (9th Cir. 2005). However, if there is  
18 any “substantial doubt” as to whether the state proceedings will provide complete and  
19 prompt resolution of the issues presented in the case, a federal district court should not  
20 abstain from exercising jurisdiction. *Id.* at 1037.

21       Abstention may be appropriate even if the two proceedings do not involve  
22 identical issues and parties, so long as the two actions involve “substantially similar”  
23 issues and parties. *See Nakash v. Marciano*, 882 F.2d 1411, 1416 (9th Cir. 1989); *see also*  
24 *American Guar. & Liab. Ins. Co. v. U.S. Fid. & Guar. Co.*, 2006 WL 3499342, \*2 (W.D.  
25 Wash. 2006).

26       Additionally, a district court should consider the following factors in determining  
27 whether to stay proceedings: (1) the desirability of avoiding piecemeal litigation; (2)

1 whether the state proceeding is adequate to protect the parties' rights; (3) the order in  
2 which the forums obtained jurisdiction; (4) whether either the state or federal court has  
3 assumed jurisdiction over a *res*; (5) the relative convenience of the forums; and (6)  
4 whether state or federal law controls. *See Nakash*, 882 F.2d at 1415. "These factors are to  
5 be applied in a pragmatic and flexible way, as part of a balancing process rather than as a  
6 'mechanical checklist.'" *Id.* (quoting *American Int'l Underwriters, (Phillipines), Inc. v.*  
7 *Continental Ins. Co.*, 843 F.2d 1253, 1257 (9th Cir. 1988)). A trial court may also  
8 consider how far a pending state action has progressed in deciding whether to abstain  
9 from exercising jurisdiction. *See United States v. Adair*, 723 F.2d 1394, 1405 n.8 (9th Cir.  
10 1983) (where both the state and federal proceedings are in their infancy, the federal court  
11 should defer to the state proceeding), *but see Travelers*, 914 F.2d at 1369 ("since at the  
12 time of the district court's stay order the state court had made no rulings whatsoever in  
13 regard to [the] dispute, there [was] no certainty that duplicative effort would result").

14 With regard to the fourth factor under *Nakash* listed above, the first-to-file rule  
15 may be invoked when a complaint involving the same parties and issues has already been  
16 filed in another district. *Alltrade, Inc. v. Uniweld Products, Inc.*, 946 F.2d 622, 625 (9th  
17 Cir. 1991). The first-to-file rule is discretionary. *Id.* at 628. Courts have also recognized  
18 exceptions to the first-to-file rule, including whether a party engaged in bad faith, forum  
19 shopping, or filed an anticipatory suit. *Id.*

20 **III. DISCUSSION**

21 Flambeau moves the Court to abstain from invoking jurisdiction over OECC's  
22 claims because Flambeau filed a substantially similar claim against substantially similar  
23 parties in Wisconsin, before OECC filed the Washington action. According to Flambeau:

24 Both the Wisconsin and Washington actions require an answer to one  
25 central question: what, if any, are Flambeau and OECC's duties to each  
26 other under their potential business relationship? Those duties determine  
27 whether Flambeau owes any money to OECC, which depends on whether  
28 Flambeau retained, improperly or otherwise, the value of OECC's  
intellectual property for its own use or, instead, is using independently  
developed technology that does not utilize any of OECC's intellectual  
property.

1 Dkt. 6 at 16.

2 In addition, Flambeau contends that the Wisconsin and Washington actions  
3 involve substantially similar parties, despite OECC's inclusion of Fountainhead as well as  
4 its exclusion of Johnson Timber and Mr. Johnson as parties in the Washington action. *See*  
5 Dkt. 17 at 3 (Flambeau's response, citing *American Guaranty* and *Nakash, supra*).  
6 Flambeau maintains that both actions address the issue of the business relationship  
7 between Flambeau and OECC, and characterizes Fountainhead as a "gratuitous party"  
8 who merely served as a consultant to Flambeau. Additionally, Flambeau argues that any  
9 claim OECC had against Fountainhead could have been addressed by naming it as a  
10 counterclaim defendant in the Wisconsin action.

11 In opposition, OECC contends that abstention is not appropriate because the  
12 Wisconsin action does not involve the MNDA signed by Flambeau and Fountainhead "or  
13 any issue regarding any duty of confidentiality or handling of confidential property which  
14 are central issues in OECC's Washington action." Dkt. 14 at 3. OECC opposes  
15 Flambeau's motion for four main reasons: (1) the Wisconsin action involves different  
16 parties, different contracts and different legal issues, (2) the Wisconsin plaintiffs have  
17 done nothing to advance their case since filing the complaint, (3) OECC's claims in this  
18 case were not discovered until after the Wisconsin action was filed, and (4) the Wisconsin  
19 filing was bad faith forum shopping. *Id.* OECC argues that a determination by the  
20 Wisconsin state court that the parties never contracted to participate in a joint venture  
21 would not resolve the issue of whether Flambeau and Fountainhead violated the MNDA  
22 or converted OECC's property.

23 **A. Avoiding Piecemeal Litigation and Protecting the Parties' Rights**

24 Whether this Court should abstain from exercising jurisdiction is a close question,  
25 and the Court recognizes the need to avoid piecemeal litigation. However, Flambeau has  
26 not demonstrated that this case presents the rare exception to the general rule that a  
27 federal district court should not abstain from exercising jurisdiction. Based on the record  
28

1 developed thus far, there is substantial doubt as to whether the Wisconsin action will  
2 provide complete and prompt resolution of the issues raised in the Washington action.  
3 While the MNDA, the MOU, and the term sheet appear to be interrelated, it is not clear  
4 that resolution of the dispute regarding the MOU and term sheet will resolve the dispute  
5 regarding the MNDA. Even assuming that the Wisconsin court could resolve Flambeau's  
6 claims regarding the MOU, the term sheet, and the accounting of the \$600,000 it paid  
7 OECC, it is not clear that the Wisconsin court could resolve OECC's claim that Flambeau  
8 and/or Fountainhead used confidential information in violation of the MNDA.

9       First, the parties agreed to resolve disputes arising out of the MNDA in Pierce  
10 County, Washington.<sup>1</sup> The MNDA is the only written agreement between the parties that  
11 is before this Court; neither party has directed the Court to a copy of the MOU or term  
12 sheet in the record. Based on this choice-of-venue provision, there is substantial doubt as  
13 to whether the Wisconsin court may exercise jurisdiction over OECC's claim that  
14 Flambeau and/or Fountainhead wrongfully used confidential information. In addition,  
15 there is substantial doubt that OECC's claims constituted compulsory counterclaims in  
16 the Wisconsin action. *See Fed. R. Civ. P. 13(a)(1)(B)* (counterclaim is not compulsory if  
17 it requires the addition of a party over whom the court cannot acquire jurisdiction).

18       Second, Flambeau has not demonstrated that the parties in the two actions are  
19 substantially similar. The Washington action names Fountainhead as a defendant, which  
20 is not a defendant in the Wisconsin action. At this time, the Court is not persuaded that  
21 Fountainhead's status as a mere "consultant" makes it a nominal party for purposes of the  
22 abstention analysis. Fountainhead was a signatory to the MNDA and is alleged to have  
23 improperly used or mishandled confidential information. In addition, Flambeau has not  
24 demonstrated that OECC's failure to name Fountainhead as a counterclaim defendant in

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26       <sup>1</sup> Flambeau argues that Flambeau did not actually sign the MNDA. Dkt. 6 at 8. This does  
27 not appear to weigh in favor of granting dismissal or a stay. If Flambeau can demonstrate that it  
28 was not an actual party to the MNDA and obtain dismissal from this action, Fountainhead, which  
is not party to the Wisconsin action, may remain a defendant in this case.

1 the Wisconsin action weighs in favor of this Court abstaining from exercising  
2 jurisdiction. The Court is also not persuaded by Flambeau's argument that OECC  
3 engaged in forum-shopping because the MNDA contains a provision requiring disputes  
4 arising from the MNDA to be filed in Pierce County, Washington.<sup>2</sup>

5 **B. Remaining *Nakash* Factors**

6 The Court concludes that no other *Nakash* factors weigh in favor of this Court  
7 staying or dismissing this case at this time. While there is no dispute that Flambeau first  
8 filed an action in state court, the Court has concluded that Flambeau has not demonstrated  
9 that the Washington action involves substantially similar parties or issues. The Court also  
10 finds that the fact that both actions have not been extensively litigated weighs in favor of  
11 not dismissing or staying the case. While the Court recognizes Flambeau's cited  
12 authority, *Adair, supra*, other Ninth Circuit decisions have considered abstention  
13 appropriate where state proceedings have proceeded *far beyond* the federal proceeding.  
14 See *Travelers, supra*; see also *Nakash*, 882 F.2d at 1415. Based on the current record, it is  
15 not clear that there is a significant risk of duplicative efforts. In addition, neither court has  
16 invested much time in furthering this litigation.

17 The remaining three *Nakash* factors were not addressed by the parties. First, it  
18 does not appear that there is any jurisdiction issues with regard to a *res*. Second, the  
19 parties did not fully address the issue of relative convenience of the two forums. Finally,  
20 although this case involves state law issues regarding contract and tort law, Flambeau has  
21 not shown that this weighs in favor of abstention.

22 **IV. ORDER**

23 Therefore, it is hereby ORDERED that

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27 <sup>2</sup> The Court is also not persuaded that OECC has shown that Flambeau engaged in forum  
28 shopping.

Defendants' motion to dismiss, or in the alternative to stay (Dkt. 6) is **DENIED** without prejudice.

DATED this 17<sup>th</sup> day of March, 2009.



BENJAMIN H. SETTLE  
United States District Judge